

**REPRESENTATIVE BRIAN BAIRD
TESTIMONY BEFORE COMMITTEE ON BUDGET
U.S. HOUSE OF REPRESENTATIVES
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Thank you, Mr. Chairman.

Mr. Chairman and members of the Committee, I'm honored to be here today with my good friend Representative Bob Clement for this extremely important hearing, and I truly appreciate the opportunity to share some specific tax and budgetary concerns that have put a strain on my constituents in the state of Washington and in Bob's home state of Tennessee.

In principle, Mr. Chairman, I believe that the federal government must strive to avoid budgetary policies that favor residents of some states over others. Unfortunately, I believe that one egregious failure to adhere to this principle is found in the manner in which the federal government allows taxpayers to deduct state and local taxes.

I'm sure, Mr. Chairman and members of the Committee, that you are well aware of the problem. Simply put, residents of states with income taxes can take a deduction on their federal taxes. Residents of states with sales taxes and no income tax cannot. That differential treatment of taxpayers is a profound inequity that this Congress should rectify.

The repeal of the sales tax deduction in 1986, although well intended, resulted in a significant disparity between states. By disallowing state sales tax deductions, but retaining state income tax deductions in the federal code, we now have a system in which one individual with an income and financial profile that is identical to another person may pay higher taxes to the same federal government simply because they live in different states. As a result, residents of states such as Texas, Florida, Washington, Tennessee, South Dakota, Nevada, and Wyoming, pay more in federal taxes than residents of equal income in other states. In effect, residents of states without income taxes are underwriting a disproportionate share of the federal budget.

It's not that Washingtonians pay less in taxes. On the contrary, we're in the top quarter of states in amount of our personal income that goes to taxes. The question becomes, should residents of my state pay hundreds more dollars per year to the federal treasury for nothing more in return, than those individuals living across the river in another state. I believe that they should not.

To remedy this situation, I have proposed H.R. 322, the Tax Deduction Fairness Act of 2001, along with about 50 cosponsors, including several members of this committee, that will restore the sales tax deduction for taxpayers in states that do not have an income tax. My measure would allow taxpayers to deduct either their state income tax or state sales taxes paid in a given year. By giving a choice of deducting either sales or income tax, the budgetary scoring is kept to a minimum, but equity and fairness are restored across states.

To keep the sales tax deduction simple for taxpayers, under this legislation the Internal Revenue Service would be directed to develop standard tables for taxpayers to use in determining their average sales tax deduction. Such tables, similar to those used by taxpayers prior to 1986, would

include average calculations, based upon income and household size, for a taxpayer in a given state. The bill does not restore the itemized deduction of individual purchases; it only allows taxpayers to deduct an averaged amount based on income level and family size.

I, like all of my colleagues in this body, am committed to maintaining a balanced budget, and I am also committed to the principle of equal taxation as dictated by the Constitution. But, as we wrestle with the options for spending projected budget surpluses in the foreseeable future, I ask my colleagues to put themselves in the position of more than 50 million taxpayers who live in states with no income tax and no means of deducting sales taxes; and I ask that we prioritize the restoration of fairness for taxpayers nationwide.

So, as you review the many proposals before you today and as the committee develops a budget resolution, I strongly encourage you to consider this common-sense proposal, for the simple reason that it is the right thing to do.

Again, I want to thank you, and members of the committee for graciously granting me this opportunity, and I yield back the balance of my time.